PUBLIC DISCLOSURE

May 10, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

George State Bank
14842

100 South Main Street
George, Iowa 51237

Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108

NOTE: **This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

TABLE OF CONTENTS

I. General Information....1

II. Institution Rating 2

III. Description of Institution....3

IV. Description of Assessment Area 4

V. Conclusions 6

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of ***George State Bank, George Iowa,*** *prepared by the* ***Federal Deposit Insurance Corporation****, the institution's supervisory agency, as of* ***May 10, 2004****. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- The institution's average quarterly net loan-to-deposit ratio is reasonable given the institution's size and financial condition. The institution's net loan-to-deposit ratio averaged 71 percent for the quarters from September 30, 1999, through December 31, 2003, and demonstrates a willingness to extend credit.

- A substantial majority of the agricultural loans sampled by number and a majority by dollar volume are located in the institution's assessment area, reflecting management's willingness to lend locally.

- The distribution of sampled agricultural loans reveals a reasonable record of lending to operations of varying revenues, which reflects a reasonable performance in meeting the credit needs within its assessment area.

- The geographic distribution of sampled agricultural loans reveals a reasonable dispersion throughout its assessment area, illustrating the bank's commitment to extend loans throughout its community.

- The institution has not received any CRA complaints since the previous CRA evaluation. Therefore, this area was not evaluated and not considered in the institution's CRA rating.

- No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.

DESCRIPTION OF INSTITUTION

George State Bank, George, Iowa, operates from its only office located at 100 South Main Street, George, Iowa. The bank's ATM is located at the Casey's Convenience Store, 301 East Michigan, George, Iowa. George, Iowa, is located in eastern Lyon County in northwestern Iowa.

Control of the institution remains with GSB of George, Iowa, Corporation. The institution has no other affiliates and no subsidiaries. There are no legal or financial impediments that prevent George State Bank from helping to meet the credit needs of its assessment area. The bank's competitors include community institutions located within, or in communities adjacent to, the assessment area. Specifically, the FDIC database showed that there are 10 financial institutions operating home offices or branch offices in and near the bank's assessment area.

The institution's December 31, 2003, Consolidated Reports of Income and Condition (Call Reports) reported total assets of $44 million, total loans of $28 million, and total deposits of $40 million. The institution's deposit base increased by 12 percent and loan growth increased by 3 percent since the previous CRA evaluation. The bank was rated Satisfactory at the previous evaluation.

The institution primarily emphasizes agricultural lending. Table 1 details a breakdown of the bank's loan portfolio as of December 31, 2003. Based on the breakdown of the loan portfolio in Table 1, agricultural loans comprised 70 percent of the loan portfolio, commercial loans comprised 13 percent, residential real estate loans comprised 8 percent, and consumer loans comprise 4 percent of the loan portfolio by dollar volume. The percentage of agricultural loans was determined by aggregating the "Secured by Farmland" and "Agricultural" loan categories in Table 1. The percentage of commercial loans was determined by aggregating the "Commercial Real Estate," and "Commercial and Industrial" loan categories on the same table. The percentage of residential real estate loans is comprised of the "1-4 Family Residential" loan category on the same table. Management stated that the bank has actively sought new business relationships for all of its loan product types. For this evaluation, examiners reviewed agricultural loan products because it represented the largest by dollar volume of the loan portfolio. Commercial and residential real estate loans by number and dollar volume did not represent significant volume to provide a meaningful analysis.

An analysis of the institution's loan portfolio since the previous CRA evaluation shows a 3 percent increase in agricultural lending, a 2 percent decrease in commercial lending, a 4 percent decrease in consumer lending, a 59 percent increase in other lending (which is mainly comprised of construction and land development lending), and a 6 percent increase in residential real estate lending by dollar volume. Management attributed the increase in all product lines to a concerted effort by the bank to attract new customer relationships. The decrease in consumer and commercial lending is attributed to increased competition.

Table 1 – Loan Portfolio Distribution as of December 31, 2003		
Loan Category	**Dollar Amount (000s)**	**Percent of Total Loans**
Construction and Land Development	1,325	5
Secured by Farmland	9,101	33
1-4 Family Residential	2,271	8
Multi-Family (5 or more) Residential	0	0
Commercial Real Estate	458	1
Total Real Estate Loans	**13,155**	**47**
Agricultural	10,244	37
Commercial and Industrial	3,303	12
Consumer	1,118	4
Obligations of States and Political Subdivisions	0	0
Other	75	<1
Lease Financing Receivables	0	0
Gross Loans	27,895	100
Less: Unearned Income	0	0
Total Loans	**27,895**	**100**

Source: Report of Condition

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901) as amended requires an institution to identify one or more "assessment areas" within which its regulatory agency will evaluate the institution's performance. In most cases, the institution's assessment area will be towns, counties, or some other political subdivision in which its branches are located and a substantial portion of its loans are made. Assessment areas always consist of one or more census tracts (CTs), which are statistical subdivisions of a county.

Each geography (CT) is designated as low, moderate, middle, or upper income by comparing the 2000 U.S. Census Bureau median family income (MFI) of the geography to the MFI for the applicable area. The income levels for CTs are derived from U.S. Census Bureau information and are updated every ten years. The applicable figure used to determine the income categories for this institution's assessment area is the 2000 U.S. Census Bureau MFI of $44,001 for the

State of Iowa Non-Metropolitan Statistical Area (Non-MSA). Table 2 provides the income category definitions used in this evaluation.

Table 2 – Definition of Income Categories	
Income Category	**Definition**
Low Income	Income of less than 50 percent of the area MFI
Moderate Income	Income of at least 50 percent and less than 80 percent of the area MFI
Middle Income	Income of at least 80 percent and less than 120 percent of the area MFI
Upper Income	Income of 120 percent or more of the area MFI

The institution's assessment area in northwestern Iowa includes the eastern portions of Lyon County. According to 2000 U.S. Census Bureau data, the assessment area is comprised of 2 middle-income CTs, 9501 and 9502.

The institution's main office is located in middle-income CT 9501 in Lyon County. The entire assessment area is comprised of 6,355 residents, which is less than 1 percent of Iowa's population. According to U.S. Census Bureau data, the population of the assessment area has decreased 5 percent since 1990.

Demographic and Economic Data

To better understand the credit needs and current demographic information of local neighborhoods, cities, or counties, confidential community contacts are conducted by all financial institution regulatory agencies.

According to the 1997 Census of Agriculture County Profile, the number of farms decreased 4 percent in Lyon County from 1992 to 1997. During the same time period, the average size of farms in Lyon County increased 4 percent. According to a community contact, the numbers of operating farms in Lyon County were dwindling. The contact went on to say that an acre of good farm ground was selling between $3,000 and $4,000. The contact further said that corn and soybeans were the main grain crops in Lyon County.

Iowa Workforce Development reported the State's seasonally adjusted unemployment rate at 4.1 percent as of March 2004, reflecting no change from the 4.1 percent unemployment rate reported in February 2004. The unemployment rate is not reported by CT but by county. Lyon County reported an unemployment rate of 3.9 percent for the same time period. The Director of Iowa Workforce Development, Richard Running (iowaworkforce.org), commented that job growth stalled in February after expectations had been heightened by a surge of hiring in January. This same source stated that more substantial job growth will be needed over the next few months to ensure that the expansion is self-sustaining. The nationwide unemployment rate was at 5.7 percent in March 2004. Nationwide unemployment was reported at 5.8 percent for the same period one year ago.

According to D&B Corporation 2003 data, the largest industries in the assessment area, as a percentage of total industries, are agriculture, forestry & fishing (38 percent), and services (21 percent). D&B Corporation 2003 data also revealed that the largest employers in Lyon County include Novarts Animal Health Inc. (located in Larchwood, Iowa), Sudenga Industries Inc. (located in George, Iowa), and Sioux Valley Hospital (located in Rock Rapids, Iowa).

Reports of Condition filed by financial institutions in the area support the fact that farm and farm real estate lending is the primary credit need of the assessment area. In addition, a community contact indicated that agricultural lending was the identified credit need of the assessment area and also noted that financial institutions were meeting this need.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Examiners reviewed the institution's average quarterly net loan-to-deposit (LTD) ratio in order to evaluate the institution's performance for this criterion. A small institution's net LTD ratio is calculated by dividing the institution's net loans and leases by its total deposits. The institution's net LTD ratio is then averaged for all quarter-ends since the last evaluation. Each small institution's ratio is evaluated and analyzed using performance context, including the institution's capacity to lend, demographic, and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area. Detailed below is an analysis of this performance criterion for this institution.

The institution's average quarterly net LTD ratio, which is one measure of the institution's overall level of lending, is reasonable given the institution's size, financial condition, and assessment area demographics. The institution's net LTD ratio averaged 71 percent for the 18 quarters beginning September 30, 1999, and ending December 31, 2003. The institution's net LTD ratio has remained somewhat consistent since the previous evaluation. The net LTD ratio is currently at 68 percent for quarter ending December 31, 2003. The ratio ranged from a low of 66 percent on December 31, 2001, to a high of 78 percent on September 30, 2002.

To further evaluate the reasonableness of this ratio, examiners compared the institution's average net LTD ratio to other similarly situated lenders located within or near the institution's assessment area. Comparable institutions are chosen based on size, credit products offered, and markets served. Table 3 provides a comparison of average net LTD ratios for the subject institution and other similarly situated institutions, which includes five other financial institutions with asset sizes varying from $29 million to $70 million and average net LTD ratios of 48 percent to 97 percent. Similarly situated lenders are listed alphabetically by city. George State Bank's average net LTD ratio of 71 percent is only higher than one of the other banks listed and is only 3 percent less than another similarly situated bank. As previously mentioned, a community contact indicated that all credit needs in the area are being met. Overall, the institution's performance with this criterion is reasonable.

Table 3 – Comparable Financial Institution Analysis		
Institution	**Total Assets (000s)**	**Average Net LTD Ratio**
George State Bank George, Iowa	**44,238**	**71**
Community Bank Alton, Iowa	33,864	97
Ashton State Bank Ashton, Iowa	28,683	74
Security Savings Bank Larchwood, Iowa	54,366	94
Melvin Savings Bank Melvin, Iowa	44,886	48
Sibley State Bank Sibley, Iowa	69,846	82

**Source: Consolidated Report of Condition dated December 31, 2003.*
***Source: Consolidated Reports of Condition and Income for quarter-ends September 30, 1999, thru December 31, 2003.*

Selection of Loan Product Samples

Agricultural, commercial, and residential real estate loans comprise 96 percent of the bank's loan portfolio; however, the bank's major loan focus is agricultural lending which comprises 70 percent of the loan portfolio. As previously mentioned, a sampling of commercial and residential loans would not provide a meaningful analysis as the bank does not originate a sufficient volume by number or dollar volume. Examiners reviewed a sample of 45 agricultural loans originated between May 1, 2003, and April 30, 2004. The agricultural loans reviewed amounted to $3.3 million out of a total universe of $16.9 million for the time period reviewed.

Assessment Area Concentration

Examiners reviewed the institution's assessment area lending concentration in order to evaluate its performance with CRA small bank criteria. Examiners typically sample loans and complete a comparative analysis that details loans extended inside and outside of the institution's assessment area. Detailed below is an analysis of this performance criterion for this institution.

A substantial majority of the agricultural loans sampled by number and a majority by dollar volume were located within the bank's assessment area, reflecting a reasonable record of making loans within the assessment area. Table 4 shows that the bank originated 91 percent by number and 83 percent by dollar volume of agricultural loans sampled within its assessment area. This high level of lending inside the assessment area illustrates the institution's commitment to making credit available within its community. Overall, the institution's performance with this criterion is considered reasonable.

Table 4 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Volume of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		$ (000s)	%	$ (000s)	%	
Agricultural	41	91	4	9	45	2,752	83	578	17	3,330

Source: Examiner Sampling

The majority of the remaining analysis will focus on number of loans originated, rather than on the dollar volume, since loans extended to small farm operations are generally for smaller dollar amounts than loans to large farm operations. An analysis using dollar volume of loans would not provide a representative picture of the institution's lending.

Borrower Profile

For this criterion, examiners determine the distribution of agricultural loans that the institution originated inside its assessment area by farm gross annual revenues. To aid in evaluating the bank's performance in lending to agricultural businesses of different sizes, examiners used D&B Corporation 2003 data. D&B Corporation provides a breakdown of farms in the assessment area that reported gross revenues, as well as those that did not report gross revenues. Income information for the bank's agricultural loan sample was obtained from credit files and discussions with loan officers.

Overall, the distribution of sampled agricultural loans reveals a reasonable record of lending to operations of varying revenues, which reflects a reasonable performance in meeting the credit needs within the bank's assessment area.

Table 5 displays the number, dollar volume, and related percentages of sampled loans made to farm operations of different sizes. This table also compares those percentages to the percentages of farm operations within the assessment area according to D&B Corporation 2003 business demographic data. Only those farm operations that reported gross revenues to D&B Corporation are included in the percentage categories as depicted in Table 5.

The bank originated 90 percent of its sampled agricultural loans in the assessment area to farms with revenues of less than $1 million comparing similarly to area demographics. Nearly all the farms in the assessment area reported annual revenue of less than $1 million.

The bank's level of lending to farms with revenues ranging from $250,000 to under $500,000 and from $500,000 to less than $1 million is higher than area agricultural demographic information. Management indicated customers in these income ranges have long-term relationships with the institution and that the bank originates every qualifying farm loan. The banks performance is similar to agricultural demographic information in the $100,000 to less than $250,000 range.

As depicted in Table 5, the institution's level of lending to agricultural businesses with gross revenues of less than $100,000 is lower when compared to D&B Corporation data. However, Agricultural Census Bureau data for 1997 shows that approximately 28 percent of all farm operations with gross annual revenues of less than $100,000 do not borrow. Agricultural Census data also shows farm operations reporting less than $100,000 in annual gross revenues generated sales amounting to only 11 percent of total sales volume. Additionally, census data shows that 31 percent of farmers within Lyon County are classified as "hobby farmers," indicating that these types of farmers have other sources of revenue and, most likely, minimal need for loans. Management stated that hobby farmers typically do not have the same agricultural financing needs as other types of farmers, and that hobby farmers work off-farm to supplement their farming operations or may use other types of loans to indirectly finance their farming operations. As a result of these factors, limited opportunities exist for the bank to lend to entities in this revenue category. Therefore, the bank's performance in originating loans to agricultural operations having less than $100,000 in gross annual revenues is reasonable.

Overall, the institution's level of lending to agricultural operations is reasonable.

Table 5 – Distribution of Agricultural Loans by Gross Annual Revenues

Gross Annual Revenues	Farms in the Assessment Area	Distribution of Agricultural Loans Sampled			
	%	#	%	$ (000s)	%
< $100,000	60	15	36	393	14
$100,000 - < $250,000	36	12	29	462	17
$250,000 - < $500,000	4	6	15	331	12
$500,00 - < $1,000,000	<1	4	10	1,142	42
≥ $1,000,000	<1	4	10	424	15
Total	**100**	**41**	**100**	**2,752**	**100**

Source: Examiner Sampling and 2003 D&B Corporation Data (Note: 3 farm businesses in the assessment area that did not report incomes to D&B Corporation are excluded from this analysis).

Geographic Distribution of Lending

Examiners analyze the institution's performance under this criterion to determine if the institution is lending throughout its assessment area including any low- and moderate-income areas or geographies within the assessment area. The composition of the institution's assessment area by CT income level is important to this evaluation process because it is compared to where the institution originated its sampled loans by CT. Detailed below is an analysis of this performance criterion for the institution.

The geographic distribution of sampled agricultural loans reveals a reasonable dispersion throughout its assessment area, illustrating the bank's commitment to extend loans throughout its community.

The institution's assessment area includes only middle-income CTs. The institution's geographic distribution of sampled agricultural loans reflects reasonable penetration throughout the assessment area. Additionally, several other financial competitors operate in and near the bank's assessment area.

As depicted in Table 6, the bank's lending in CT 9501 is at a much higher level when compared to D&B Corporation data, which is reasonable since the bank's main office is located in this CT. The bank's level of lending in CT 9502 is less when compared to D&B Corporation data which is also reasonable since this CT is farthest from the bank. Moreover, according to bank management, there are at least three competing financial institutions operating in this CT.

Table 6 – Distribution of Agricultural Loans by Census Tract

Census Tract	Farms in the Assessment Area	Distribution of Agricultural Loans Sampled			
	%	#	%	$ (000s)	%
CT 9501	62	32	78	2,221	81
CT 9502	38	9	22	531	19
Total	**100**	**41**	**100**	**2,752**	**100**

Source: Examiner Sampling and 2003 D&B Corporation Data

Based upon the above information presented for each performance criteria, the institution's record of lending to agricultural borrowers within its assessment area is reasonable. There was no evidence from management or community contact discussions, or review of the bank's lending decisions to indicate that the institution is not willing to serve any particular geography of the assessment area.

Response to CRA-Related Complaints

Examiners are required to review the institution's response to any substantiated complaints. If the institution receives any written comments from the public relating to its CRA performance, they will be found in its CRA public file along with the institution's response. Comments and responses for the preceding two calendar years will be maintained in the institution's CRA public file, except for those comments that reflect adversely on the good name or reputation of any persons other than the institution.

A review of the bank's CRA public file and discussions with management revealed that the institution has not received any CRA-related complaints since the previous CRA evaluation and no violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.

Compliance With Anti-discrimination Laws and Regulations

Examiners are required to take into consideration the institution's compliance with fair lending laws when assigning a CRA rating.

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.